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ABSTRACT

Issues in the funding of public primary and secondary education in Maryland are examined in this analysis of the final report made by the state legislature's Study Group on Education and Local Government. Following a statement of study group principles, four policy options are examined: (1) ways to modify current funding commitments; (2) several general approaches to redirection; (3) redirection options related to special student populations; and (4) other aspects of education formula funding. A conclusion is that the report is disappointing because the study group operated on short-term rather than long-term assumptions, and the State General Assembly failed to translate its best intentions into significant plans for school finance reform. Six tables are included. The appendix contains specific findings. (LMI)

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UNFINISHED HOMEWORK:

Analysis of the Legislative Study Group on Education and Local Government's Final Report

January 7, 1992

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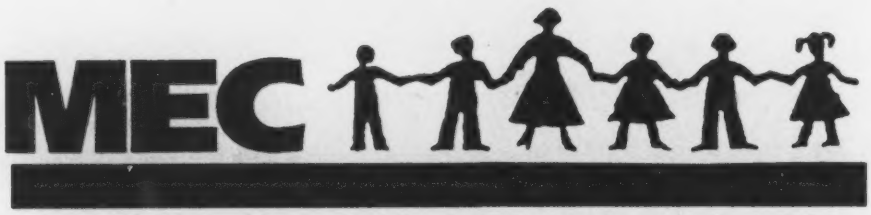

Metropolitan Education Coalition

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The Metropolitan Education Coalition
104 E. 25th St.
Baltimore, Maryland 21218
(410) 467-9560
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Introduction

The Study Group on Education and Local Government was established under a mandate by the General Assembly's leadership. Composed of members from the four fiscal committees, it examined certain aspects of the state's overall revenue and expenditure situation. It met throughout the Fall of 1991 to discuss and deliberate over, among other things, the multitude of issues surrounding the funding of public primary and secondary education in Maryland. Its work was synthesized into a Final Report dated October 29, 1991. In its Final Report, the Study Group made no specific recommendations, but rather gave a Statement of Principles (discussed below), half a dozen findings (Appendix A), and a series of policy options (also discussed below).

Statement of Principles

Many observers were encouraged to read the Statement of Principles adopted by the Study Group and printed below, especially when the Study Group found that these principles should "continue to direct the state's funding policy for education." However that sense of hope quickly vanished when it became clear from the remainder of the report that the Study Group primarily operated on short-term fiscal assumptions rather than on assumptions based upon a long-term need for a healthy and vibrant system of public primary and secondary education in Maryland.

For over a decade, the General Assembly, while espousing principles such as those listed below, has failed to translate them into an adequate and equitable system of public education finance. Many who have struggled to get an adequate foundation level in place thought FY 1993, with the fulfillment of the APEX commitment, would be a year of substantial progress. Now, however, even that progress is in jeopardy. The expectation was that the General Assembly's Revenue and Expenditure Study would, as advertised, take a long-term, comprehensive look at state responsibilities such as primary and secondary education.

Many options with potential for improving school finance were presented. Yet, in the Study

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Portions of this analysis were taken from various reports compiled by the Department of Fiscal Services.

Group's final report on education, the General Assembly has once again failed to translate its best intentions into significant, meaningful plans to improve Maryland's system of public school finance.

Joint Study Group on Education and Local Government
Primary and Secondary Education
Statement of Principles

EQUAL ACCESS TO QUALITY EDUCATION - The state should ensure that every Maryland child, regardless of geographical location, has the opportunity to participate in a quality education environment that supplies the fundamental learning skills.

FUNDING ADEQUACY - The state and local governments should appropriate sufficient funds to support this quality educational environment.

FUNDING EQUITY - The state should ensure that state aid for education accounts for the variation in cost of providing a quality basic education and the ability and effort of jurisdictions to support this cost. State aid should assist in reducing spending disparities and should be distributed in such a manner that the provision of basic educational opportunities is not solely dependent upon local wealth.

SPECIAL STUDENT POPULATIONS - The state should recognize the needs of special student populations, and develop an appropriate method to address these needs. In particular, funds should follow the child and to the maximum extent possible be used to benefit those children with special needs.

ACCOUNTABILITY - The state should require local education agencies to develop realistic plans to improve the quality of the education offered to students, and should require local education agencies to demonstrate improvement under these plans. Furthermore, state aid should be related to school system performance under these plans.

PROGRAMMATIC EFFECTIVENESS - The state and localities should fund programs which are the most effective in providing a quality education. Programs without demonstrated achievements should be eliminated and the state should support the expansion of successful programs within and among localities.

Policy Options

A majority of the policy options included in the report revolve around the central premise that in order to more effectively serve "the state's goal of providing a quality educational environment," some portion of scheduled APEX fund increases (i.e., over FY92 levels) could be targeted to "specific student populations, specific programs, or to low-wealth counties." MEC feels strongly that any such redirection would constitute a breach of faith between the legislature and Maryland's public schools in terms of the APEX commitment. What is required is an additional investment in education, not a redistribution of inadequate monies. The answer to effectively providing a quality educational environment based on the principles outlined above is not to reduce services to some students so that

others may enjoy the basics, but to invest to an extent that all students can enjoy a challenging, robust education while being held to world-class standards of learning.

Maryland has taken major, nationally-recognized steps in setting standards and measuring attainment of those standards through the Maryland School Performance Program. The responsibility for achieving those standards resides with local schools and school systems. Now, the state must give these local school systems the resources necessary to achieve those goals. The best ideas from the legislative study must be joined with others to craft a long-term solution to school funding in Maryland.

What follows is a summary of the policy options the Study Group gave, including a) a summary of the three alternative ways of modifying current funding commitments to produce a "pot of money" which could be redirected; b) summaries of several general approaches to redirection; c) summaries of redirection options related to special student populations and, d) other aspects of education formula funding which require consideration.

A. Study Group Options for Modifying Current Funding Commitments

Five Year Phase-In to 75% Target

Maryland's funding formula for Basic Current Expense is called APEX (Action Plan for Education Excellence). Under this formula the state and local jurisdictions share in a foundation program for each school child, which by FY 1993 is to equal 75% of the statewide average costs. Each jurisdiction's local share of this foundation amount is based on the jurisdiction's property and income wealth per pupil.

Under current law, APEX funding will reach the 75% goal in FY 1993 and yield $180 million in additional aid to local jurisdictions. This 75% target was first crafted into law by the General Assembly in 1980 as a mechanism to base state aid on actual spending levels. In the eleven intervening years, due to caps and other restrictions, the 75% target has never been met. One approach to "holding out" a portion of Current Expense dollars for redirection would be to delay the target date to reach 75% until FY 1997. While this option would clearly break the commitment to full funding of APEX by FY

1993, there would still be a distinct, enumerated progression to the 75% level. The chart below shows how this approach would work:

Simulation of 5-Year Phase-In to 75%

(dollars in millions)				5 Year Phase-In To 75% Target	
Fiscal Year	Current Law	5 Yr. Phase-In to 75%	Distributed Under APEX	% of Target (%)	Available for Redirection ($ in millions)
1992	946.1			70.4	
1993	1,126.4	1,067.5	121.4	71	58.9
1994	1,251.4	1,201.6	134.1	72	49.6
1995	1,345.2	1,309.6	108.0	73	35.6
1996	1,430.8	1,400.3	90.7	74	30.5
1997	1,539.0	1,517.5	117.2	75	21.5
1998	1,636.7	1,619.9	102.5	75	16.8
1999	1,722.6	1,709.8	89.9	75	12.8
2000	1,815.9	1,806.0	96.2	75	9.9

Freeze Funding at 70.4% Level

A second alternative would be to permanently freeze APEX funding at the FY 1992 level, i.e., 70.4%, rather than moving to 75% in FY 1993. If the purpose was to set-aside a sum of money for redirection, the chart below illustrates how this option would work:

Simulation of Freezing Funding at 70.4% of Target

(dollars in millions)				Funding at FY 1992 Level 70.4% of Target	
Fiscal Year	Current Law	Freeze at FY92 Level (70.4%)	Distributed Under APEX	% of Target (%)	Available for Redirection ($ in millions)
1992	946.1			70.4	
1993	1,126.4	1,058.6	112.5	70.4	67.8
1994	1,251.4	1,176.0	117.4	70.4	75.2
1995	1,345.2	1,264.1	88.1	70.4	81.1
1996	1,430.8	1,332.1	68.0	70.4	98.7
1997	1,539.0	1,419.8	87.7	70.4	119.2
1998	1,636.7	1,509.3	86.5	70.4	127.4
1999	1,722.6	1,586.0	76.7	70.4	136.6
2000	1,815.9	1,667.1	81.1	70.4	148.3

Obviously, the preceding analyses are premised on the notion that the overall dollar commitment to APEX (i.e., the amount of money which would be spent under current law) is maintained. To freeze funding at the 70.4% level would mean that the APEX commitment would go permanently unfulfilled, since the goal of reaching 75% of the statewide average would not be achieved.

It is important to note that the $112.5 million increase in FY 1993 in the option to freeze at FY 1992 levels represents the level of increased state aid at which jurisdictions receive no net increase in funding from FY 1992 beyond enrollment growth and increased costs. The option for a 5-year phase-in to 75% would provide every jurisdiction with a net increase in funding (albeit minuscule) over FY 1992 levels and provide some funds for redirection to special needs populations. However, it must be emphasized that both options fail to keep the commitment made in 1987 to fully fund APEX at 75% by FY 1993.

Capping Teacher Social Security and Retirement

A third option would provide for capping state teacher social security and retirement payments, presumably at FY 1992 levels, thus making $40.7 million available for redirection. This approach raises several issues. First, to the extent that any jurisdiction, irrespective of wealth, receives less teacher social security and retirement aid, that jurisdiction must replace the lost aid with local funds or other state aid funds. Given existing fiscal conditions statewide, this would likely present a hardship for most counties. Second, if teacher social security and retirement aid is redirected to low-wealth counties on a categorical basis, it could be assumed that an equal proportion of the new aid would be used to fund the teacher social security and retirement contributions no longer made by the state. If teacher social security and retirement aid is redirected to specific special needs populations, it could be assumed that other categorical aid would be used to replace it, perhaps adversely affecting the general student population. Third, to the extent that caps are applied proportionally to all jurisdictions, those with relatively fewer employees and/or lower salaries would be unfairly penalized since any growth toward the staffing and salary levels of jurisdictions with relatively more employees and/or higher salaries would place a greater burden on their local funding. Conversely, jurisdictions with relatively more employees and/or higher salaries have received full state funding of teacher social security and retirement contributions to get to

those levels and would, accordingly, bear relatively less of the burden of future growth.

Capping social security and retirement payments at FY 1992 levels would curb the state's contribution to a highly disequalizing aid formula and would presumably increase the state's contribution to an equalizing, or at least proportional, formula. The Study Group suggested the possibility of a cap based on reaching a desired level of teaching positions per FTE (Full-Time Equivalent -- September 30th enrollment count used in Current Expense formula), which could potentially mitigate some of the effects of a cap on jurisdictions with relatively fewer employees. Similarly, though not mentioned in the report, a cap based on regional salary schedules could potentially allow growth of the state's contribution to teacher social security and retirement to jurisdictions with relatively low salaries in relation to other jurisdictions within their region.

B. Redirection Options: General Approaches

After the Study Group considered ways of producing a "pot of money," it turned to ways of directing that money to better serve state education goals as they view them. The first set of options it considered were those designed to target aid to low wealth counties.

Redirecting to Low Wealth Counties: Reducing State's Share

The first option would entail reducing the state's share of the minimum foundation under the APEX formula, while simultaneously increasing the foundation amount, resulting in a more equal distribution of the same dollar commitment. As Fiscal Service's analyses have indicated, at first blush this approach seems counterintuitive. But if one recognizes that the state share of APEX is arrived at by first calculating the local share based on local wealth, one can understand that wealthy jurisdictions will have a relatively larger local share and smaller state share. So long as the savings (of initially reducing the overall state share) are rolled back into the formula (by increasing the foundation), it will modestly improve the equalization of aid under the APEX formula.

The table below compares current law funding (51% state share) with this option simulated at 45% state share. Note that both approaches spend the same overall dollar amount.

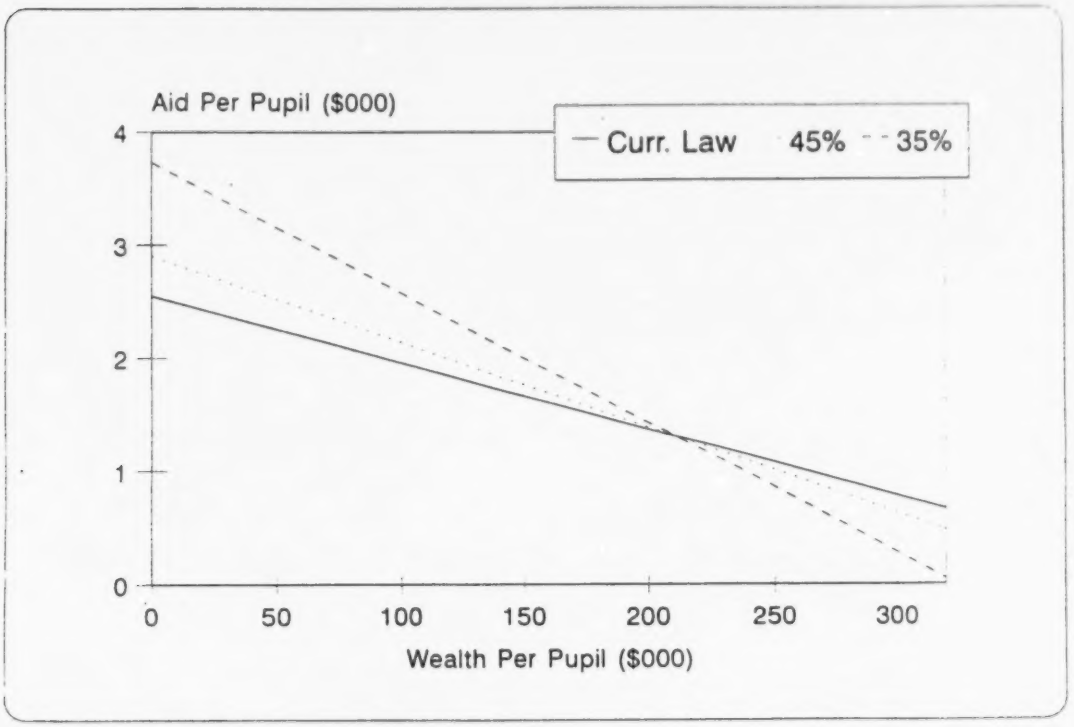
Simulation of Reducing State's Share to 45%

	Reduce State Share to 45%				Current Law			
County	Current Expense @ $3024 Compensatory Aid @ $755 Total Aid	Per Pupil Aid	Per Pupil Aid Prior Year	Per Pupil Difference	Current Expense @ $2969 Compensatory @ $742 Total Aid	Per Pupil Aid	Per Pupil Aid Prior Year	Per Pupil Difference
Allegany	$24,525,011	$2,324	$1,979	$345	$24,264,402	$2,299	$1,979	$320
Anne Arundel	$93,863,899	$1,491	$1,304	$187	$94,102,427	$1,495	$1,304	$191
Baltimore City	$263,861,054	$2,621	$2,227	$394	$260,811,573	$2,591	$2,227	$364
Baltimore	$106,908,045	$1,264	$1,047	$217	$107,939,753	$1,276	$1,047	$229
Calvert	$17,879,065	$1,735	$1,478	$257	$17,826,651	$1,730	$1,478	$252
Caroline	$11,134,737	$2,388	$2,038	$350	$11,003,955	$2,360	$2,038	$322
Carroll	$40,507,138	$1,889	$1,631	$258	$40,262,700	$1,877	$1,631	$246
Cecil	$26,054,243	$2,106	$1,813	$293	$25,822,720	$2,088	$1,813	$275
Charles	$37,804,351	$2,043	$1,690	$353	$37,502,979	$2,027	$1,690	$337
Dorchester	$9,861,196	$2,171	$1,846	$325	$9,775,010	$2,152	$1,846	$306
Frederick	$48,241,652	$1,843	$1,591	$252	$47,989,050	$1,834	$1,591	$243
Garrett	$11,398,525	$2,259	$1,945	$314	$11,284,330	$2,236	$1,945	$291
Harford	$61,277,615	$1,988	$1,699	$289	$60,830,423	$1,974	$1,699	$275
Howard	$35,891,570	$1,193	$1,033	$160	$36,322,862	$1,207	$1,033	$174
Kent	$3,948,764	$1,624	$1,408	$216	$3,948,076	$1,623	$1,408	$215
Montgomery	$45,390,694	$449	$437	$12	$49,670,181	$492	$437	$55
Prince George's	$181,619,925	$1,721	$1,503	$218	$181,131,365	$1,716	$1,503	$213
Queen Anne's	$8,696,590	$1,651	$1,388	$263	$8,686,409	$1,649	$1,388	$261
St. Mary's	$24,906,339	$2,093	$1,793	$300	$24,697,899	$2,075	$1,793	$282
Somerset	$7,824,274	$2,497	$2,138	$359	$7,729,108	$2,466	$2,138	$328
Talbot	$2,506,410	$636	$603	$33	$2,648,129	$672	$603	$69
Washington	$35,070,149	$2,066	$1,771	$295	$34,793,303	$2,050	$1,771	$279
Wicomico	$26,342,128	$2,152	$1,822	$330	$26,102,870	$2,132	$1,822	$310
Worcester	$964,053	$176	$132	$44	$1,256,533	$229	$132	$97
	$1,126,477,427				$1,126,402,708			

One could argue that this approach breaks the commitment to APEX even though it maintains the overall dollar commitment. Furthermore, it must be emphasized that by its very nature this approach would mean reduced state aid for the wealthier jurisdictions. This approach could, however, be viewed as a relatively straightforward way to increase the efficiency of the Current Expense formula, as illustrated by the following Fiscal Services chart.

How Reducing State Share Increases Efficiency

IMPACT OF CHANGING THE STATE SHARE OF
THE CURRENT EXPENSE PER PUPIL FOUNDATION



PREPARED BY: Department of Fiscal Services, Sept. 1991

If reducing the state's share of the minimum foundation were combined with raising the foundation toward 100%, this approach would significantly increase the equalization of APEX funding.

Redirecting to Low Wealth Counties: Direct Wealth-Based Grant

A second method of targeting additional aid to low wealth counties would be to add a new formula which distributes aid to the lowest wealth counties based on county wealth. Under this approach, a wealth per pupil target would be established. Any county below this threshold would be eligible for targeted aid on a proportional FTE basis. The formula would look like this:

How Wealth-Based Targeted Aid Formulas Work

		Wealth Per Pupil Target
	-	Wealth Per Pupil for County Z
	=	Distance Below Target for County Z
County Z Share (%)	=	Distance below target for County Z x FTE Count for County Z / Total distance below target for all counties x Total FTE for counties below target
Targeted Aid for County Z	=	Total Aid Amount x County Z Share (%)

Since the wealth per pupil target would be arbitrary, the number of counties eligible would be arbitrary also. Furthermore, the total aid amount would be arbitrary rather than driven by a formula. This approach could potentially reduce disparities much more drastically than the previous approach depending on the target set and the number of counties eligible. Also, since the per pupil wealth threshold is arbitrary, there is a potential "cliff effect," where counties fall in and out of eligibility.

Redirecting to Low Wealth Counties: Guaranteed Tax Base Approach

The third approach considered would distribute additional aid to jurisdictions based on wealth and local tax effort. This approach would calculate each jurisdiction's effort (i.e., local taxes per pupil divided by local wealth per pupil) and multiply that by a guaranteed wealth base (would need to be determined) per pupil. State aid would equal the difference between this guaranteed yield and what the jurisdiction can yield from its own wealth base with the same effort.

As mentioned, the level at which the guaranteed wealth base was set would determine which counties were eligible for aid. But even a county with a wealth base lower than the guaranteed wealth base would receive state aid in relation to their tax effort. A low wealth, low effort jurisdiction would receive relatively little state aid. Conversely, a low wealth, high effort jurisdiction could do relatively well under a Guaranteed Tax Base approach. A variation in this approach would tie local effort to local education appropriations rather than simply local tax effort. This would have the affect of penalizing jurisdictions who must support extensive non-education services and could not, therefore, support education at a level consistent with the rest of the state. To the extent that this so-called municipal overburden could be compensated for, however, this approach could increase local accountability by giving low-wealth jurisdictions added incentive to maintain or increase their effort.

C. Redirection Options: Special Needs Populations

In the next phase, the Study Group examined how to redirect APEX funds or otherwise provide for programs for special needs populations.

Redirect to Early Grades

Recognizing the importance of the primary grades in promoting educational achievement, the Study Group considered ways of directing additional funding there. One option was to target APEX increases to the early grades (pre-k through 3). It appeared this targeting would be via "successful programs", though the Study Group did not suggest how, or by whom, those programs would be defined. This option does not appear to be directed toward demonstrably at-risk populations, but rather toward the general school population, thus recognizing that early investment can preclude the necessity for some future remedial programs.

A second option directed toward the general rather than the demonstrably at-risk population was to fund full-day kindergarten for all students. Actually, this simply means that kindergarten students would be counted as a full FTE instead of a half FTE for Current Expense purposes, thereby increasing each jurisdiction's enrollment. However, since the state would share in approximately half of the expenses of full-day kindergarten, the local jurisdictions might be placed under some degree of strain to provide their local share.

Redirect to Expand Pre-K for At-Risk Populations

Three other options considered were related to the expanded funding of pre-kindergarten for educationally disadvantaged children. The first option would accelerate the expansion of the current EEEP (Extended Elementary Education Program) to serve more educationally disadvantaged children, leaving it as a distinct program, i.e., not part of APEX. One obvious drawback to this option is that it leaves the program susceptible to the kind of budget cutbacks it received this year, when the program was cut $553,000. Another modest drawback is related to the fact that current state EEEP aid is for payment of salaries and leaves many other costs to the local jurisdictions.

The second option is to "include pre-k students receiving compensatory programs in FTE counts for Current Expense purposes." Under this option, each jurisdiction's enrollment would increase, but not each jurisdiction's Current Expense aid would; in fact some counties would receive fewer Current Expense dollars. (Counties serving relatively few pre-k students as a percent of total enrollment would have a higher wealth per pupil since their wealth remains the same, but relative to their neighbors they

serve fewer students.)

Some difficulties with this approach are apparent. First, if this option were used to supplant the current EEEP funding, it would severely curtail aid to wealthy jurisdictions. Under the current system, EEEP funding is proportional, that is, each instructional unit (of 20 pupils) is allotted the same amount of aid, irrespective of the jurisdiction's wealth. Under this option, however, aid would essentially be equalized, so that, for example, each pre-k student in Baltimore City would receive $2,251 in additional state aid, while in Montgomery County, a pre-k student would receive $218 in additional state aid. Notwithstanding these figures, the Fiscal Service's analysis maintains that wealthy jurisdictions "may be able to develop more extensive pre-k programs," making standard criteria for including pre-k students in FTE counts essential. If in fact wealthy jurisdictions were able to develop more extensive programs, it would largely have to be done with local resources.

Including pre-k pupils in the FTE count raises a second problematic area. Under current law, the FTE count used to calculate Current Expense aid is always one year behind. For example, to calculate aid for the school year beginning September 1992, this past year's September 30th enrollment will be used. If a jurisdiction were to set up pre-k programs under this option in September 1992, those students would not be part of the count for purposes of state aid until the following year. Unless this lag is accounted for, jurisdictions have a disincentive, not an incentive as the analyses claim, to provide pre-k programs because of this first year "hit."

A third option to fund pre-k for educationally disadvantaged students is to include pre-k pupils receiving compensatory programs in the Chapter I count for the state compensatory aid formula. This option raises the same issues as the previous one except that, so long as it was initiated strictly as an enhancement to current EEEP, every jurisdiction would experience at least a modest increase in aid. It also shares the advantage of incorporating at least some portion of pre-k funding into a mandated formula, making it somewhat more secure from budget cuts.

Redirect to Enhance Compensatory Education

Turning to the state Compensatory Education formula, the Study Group spelled out two options. The first is to simply increase current funding levels by raising the percentage of the foundation used in

the Current Expense formula. Currently, the compensatory aid foundation is 25% of the Current Expense foundation. Research shows that, if one assumes the Current Expense foundation now in place reflects the education services required for a "typical" student, the remedial services an educationally or economically disadvantaged student requires costs 50% more. That is, if the state wants to more nearly meet the funding level for a student requiring compensatory services, it should be spending 150% of the current foundation on that student. However, it the Current Expense foundation were closer to the education services required for a typical student, the cost differential for remedial services would likely be less than 50%.

A second option would require that jurisdictions spend all state compensatory education aid "on programs which enhance the educational environment in schools where eligible students are enrolled." Under current law, jurisdictions are only required to spend the sum of a) $70 multiplied by their Chapter I enrollment and 2) 25% of the difference between what they currently receive and what they received in 1985, on educationally disadvantaged students; the remainder can be spent on instruction anywhere in the system.

Redirect to Enhance Special Education

The Study Group turned next to redirection options to enhance special education funding. First, a review of the public special education funding formula might be useful.

The basis of public special education funding is an "excess costs" formula which was established in 1981. That formula allocates $70 million in state aid based on 1981 enrollment, cost index, and equalization factor. In 1988, a second layer was added which is based on handicapped enrollment and a wealth ratio. This add-on is currently $11.25 million. These two formulas combined fund only 36% of the "excess costs" of public special education.

The Study Group's first option was to simply increase the $11 million add-on. This approach would have the advantages of increasing the state's share of excess costs, being wealth equalized, and using actual handicapped head counts. Its drawbacks are that it would require legislation each time state funding was to be increased. Moreover, the head count approach ignores the variations in costs of accommodating different levels of service required by different types and severities of handicapping

condition. The lowest service level, Level I, is counted equal to the highest, Level V, even though there is an enormous difference in the costs of services associated with the two levels.

An alternative approach would be to replace the existing public special education funding mechanisms with a new formula based on the actual costs of providing services at the various levels. A weighted enrollment would be calculated for each jurisdiction based on these service level factors and then multiplied by the Current Expense aid per pupil to determine the public special education aid level of state funding.

The Study Group also expressed concern about the lack of incentive for counties to develop public and non-public special education programs. It encouraged initiatives to fund the development of in-state non-public placement sites.

Redirect to Fund English as a Second Language Programs

The Study Group recommended that ESOL (English for Speakers of Other Languages) students receive state aid on a basis similar to compensatory education, i.e., wealth equalized. Presumably, under this option, one would determine the excess costs of providing services for ESOL students and then fund jurisdictions with an equalized share of those costs.

Weighting in General: A Medium for Redirection?

The Study Group dealt with the notion of weighting enrollments as a distinct set of options. As discussed, weighting is an approach wherein "excess costs" of providing services to a special population or distinct grade levels are accounted for in the pupil count. For example, if it costs twice as much to accommodate a certain level of special education student, that student's weighted enrollment would be 2.0 instead of 1.0. This method could be applied to any category of student, and the weighted enrollments it yields could be applied in two distinct ways. First, the weighted populations could be combined and used to calculate Current Expense state aid. This approach could lead some counties to lose Current Expense aid since they could potentially become "wealthier" (i.e., have a lower student count per wealth base, see page 10). The second approach would be to calculate Current Expense state aid per pupil first, and then multiply that per pupil aid by the weighted enrollments for each student category.

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D. Other Educational Issues

Cost of a Quality Education

The Study Group next turned to educational costs and cost differentials. These two concepts are fundamentally different. Educational costs are related to looking at what kinds of services and facilities are necessary to produce the educational outcomes desired, and how much they cost, with an eye toward using this information as the basis of a foundation funding level. Currently in Maryland, the foundation amount used does not reflect the "price" of achieving desired educational outcomes; it merely reflects past spending. The Maryland Commission on School Performance (Sondheim Commission) had recommended that a study of this nature be done in Maryland. That recommendation, however, has not been addressed. Some states have done "Cost of Delivering Education Studies," which examine "comprehensive best practice schools" to determine what should be the foundation level of funding. Comprehensive best practice schools are typically an elementary, middle, or high school which offers a range of appropriate curricula and is generally considered to be funded at an adequate level. Once the components of a best practice school have been catalogued, the best practice model is costed out to determine what an adequate or basic quality education costs.

Though some states have completed this type of examination, few have used it to determine their foundation funding level. Instead, most states have made their foundation funding fit into overall budget parameters, a practice duplicated in Maryland. The Study Group includes completion of this type of "basic quality education" study in its menu of options.

Jurisdiction to Jurisdiction Cost Differentials

Cost differentials, as opposed to educational costs, deal with the varied costs of providing similar services throughout the state. The Study Group contends that these variations in cost between jurisdictions account for a "significant portion of the disparities in spending per student." The first of three options the Study Group offered in this category was a "Cost-of-Education Index." This type of index was done in Maryland in 1980 and measures what it would cost each county to purchase a "market basket" of educational resources. The 1980 index is an extremely complex statistical model that measures

hundreds of education variables, many of which are based on survey data no longer gathered. Moreover, its usefulness would be limited to education. Though it never was, an index like the one developed in 1980 could be used to adjust state education aid distribution. For example, if a jurisdiction had relatively lower costs, it could be given relatively less aid, whereas a jurisdiction with higher costs could be given relatively more aid.

Another approach given by the Study Group is based on Florida's cost-of-living index. Florida's index is essentially a county by county consumer price survey. Annually, the state surveys prices for a market basket of goods and services in each county statewide. The results give a picture of the relative purchasing power of a dollar of state aid across counties and, as in Florida, could be used to adjust state education (or other) aid as outlined above.

The third approach is to "adjust formula factors to reflect cost differences outside the direct control of school districts," such as weighted enrollments, sparsity/density factors, and salary differentials.

Local Effort

The Study Group was concerned that existing local effort requirements were inadequate to the task of preventing jurisdictions from replacing local education revenues with additional state aid, and turned to this subject next. Current law requires that locals 1) provide the local share calculated in the Current Expense formula and 2) appropriate to education the same aggregate dollar amount as in the previous year, or the prior year's appropriation per pupil times the FTE count used to calculate Current Expense aid, whichever is greater.

The Study Group suggested that local effort requirements be strengthened by requiring jurisdictions to increase local education appropriations by some escalating factor such as the CPI, or growth in local property and/or income wealth. In both cases, the Study Group indicated that counties with high per pupil spending could be exempted, presumably so that disparities would not widen as a direct result of the local effort requirements. Also, jurisdictions with high tax effort could be exempted where local education appropriations are constrained by municipal overburden.

The Study Group also offered two other options which would build additional local effort

requirements into the Current Expense funding formula by calculating state aid based on effort and local wealth. Either arrangement would provide a disincentive for jurisdictions to reduce their effort and would reward those jurisdictions that make a relatively larger effort. The first, the Guaranteed Tax Base approach would specifically reward education (and/or tax) effort. A discussion of this option is on page 9. The other option, the Federal Revenue Sharing Model, would generally reward tax effort in proportion to local wealth.

Accountability

The Study Group presented two options regarding accountability. The first is to target some or all of the FY 1993 Current Expense increases for specific purposes such as the implementation of accountability programs at the local level, the funding of pilot programs for special student populations, the improvement of student/teacher ratios, and the increased funding of the vocational-technical set-aside. It is unclear what the Study Group's rationale for this earmarking was, or the extent to which the specific purposes targeted serve the goal of accountability. It appears that the sense in which the Study Group means accountability is that local superintendents and boards of education lose some or all of their discretion as to how their Current Expense increases are spent.

The second option given by the Study Group was essentially the same as MEC's accountability mechanism from the 1990 New APEX bill. This plan would tie increases in state aid to demonstrated improvements in student performance by requiring school systems to be evaluated annually on achievement of self-imposed performance goals, and withholding incremental increases in aid if those achievement levels are unmet.

As MEC envisions this approach, jurisdictions would draw up their own improvement plans, to which they would be held accountable. An accountability review board, to be comprised of educators, business people and legislators would review each school system's performance gains yearly to determine whether they merit receiving their Current Expense increases. In the event the plans do not, the school system's Current Expense increase would revert to the control of MSDE until plans are drawn up to correct deficiencies in performance improvement. Performance improvement plans would be required for the general student population, special education population and the Chapter I population.

Current Expense Formula

Three issues were raised by the Study Group in examining the major state aid component for education, the Current Expense formula. The first relates to the accounting methods used in calculating the foundation level. Current law (beginning FY 1993) uses a foundation of 75% of the third and fourth prior year's "basic costs" per pupil, where basic costs per pupil is the aggregate sum of certain education expenditures divided by the current FTE count. The expenditures to be included in the calculation lead to some double-counting as well as some confusion about how capital expenditures should be treated. The Study Group said that correcting both of these deficiencies would result in a net increase in the foundation amount.

The Study Group also suggested the option of changing Maryland's September 30th Full-Time Equivalent (FTE) student count to an Average Daily Attendance (ADA) student count for purposes of calculating Current Expense aid. This could significantly reduce aid to those jurisdictions with relatively high absenteeism, in fact compounding the problem. This approach could, however, provide a needed incentive for those counties to improve attendance.

The wealth measurement used by the state for education purposes was discussed as well. It was suggested that 100% of county personal property, rather than the 50% in current law, be factored into county wealth. The Study Group suggested that all components of the wealth calculation be reviewed to determine if they could be better reconciled to a jurisdiction's "ability to pay."

Appendix A

JOINT STUDY GROUP ON EDUCATION AND LOCAL GOVERNMENT

PRIMARY AND SECONDARY EDUCATION

Findings

- **Increased Education Aid:** The state has dedicated considerable resources to primary and secondary education, and has attempted to apply these resources under a relatively consistent funding philosophy. The success of these efforts is easily demonstrated: teacher salaries and per pupil spending levels have grown dramatically and rank in the top ten on a nationwide basis; funding for special student populations has increased; and a greater percentage of state aid for education is distributed on an equalized basis.

- **Defining "Quality Education":** As currently structured, the determination of the minimum per pupil funding level is based on the historical level of spending within the local school systems. It has not been determined what constitutes a basic level of education, and what it should cost to provide this level of service. As a proxy, state aid relies on 75% of allowable "basic costs" as a representation of need. As a result, education funding in Maryland is essentially divorced from standards of quality and need -- spending is driven by spending.

- **Distribution of State Aid for Education:** The majority of state aid for education accounts for differences in wealth among the subdivisions. Because of this criterion, most education aid is equalized, i.e., more aid goes to the less wealthy jurisdictions. However, differences in effort and costs among the counties are ignored in determining the distribution of aid. Because these differences are ignored, the distribution of aid is less equitable. A more equitable distribution of funds could be achieved if the aid formulas accounted for both the differences in wealth and a county's own effort to produce revenue from that wealth. Further, recognizing differences in cost under the state aid formulas would provide a better accounting of the actual education burden faced by the counties, since a dollar of state aid does not represent the same level of support among the jurisdictions.

- **Disequalizing Effect of Retirement and Social Security Distributions:** Unlike other major state aid formulas for education, state contributions for retirement and social security are not equalized. As such, these programs tend to counteract the effects of the wealth based state education formulas. Since the wealthier jurisdictions tend to pay higher salaries and have larger staffs, these jurisdictions receive more state aid to support retirement and social security benefits; however, since a county cost-of-living index has not been developed it is difficult to determine how cost-of-living differences among the counties affect salary levels. Salary levels and staffing are also related to local education effort, which is not a factor in the distribution of state equalized aid. In FY 1990, retirement and social security totaled $431.9 million or almost 30% of state aid for education.

- **Addressing the Needs of Special Populations:** The state currently provides funding specifically for special education and disadvantaged students. However, state aid for special student populations is not based on the cost of providing the additional services these special student populations require. Additionally, as new special needs populations such as ESOL and homeless have emerged, they have not received earmarked state aid to address their unique educational requirements. Finally, while state aid does account for some special student populations, this aid does not always effectively target these groups. It is essential that dollars allocated for special students are used to support those students to the maximum extent possible.

- **Inputs vs. Outputs:** Historically, discussions on education funding have focused on inputs -- spending per pupil, teacher ratios, number of computers, etc.--and very seldom on outputs--attendance and/or participation, skills acquired, success under standard performance measures, etc. As a result, the state may be supporting programs and systems which are not the most effective in supplying a quality basic educational environment.

  Adhering to the principle of programmatic effectiveness requires the state to focus on the results of education spending. In addition to holding entire school systems accountable for improvement in student performance, the state should also demand demonstrated success from existing educational programs.